



ARIZONA SPORTS & TOURISM AUTHORITY

University of Phoenix Stadium

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December 15, 2010

Ms. Debra K. Davenport, CPA
Auditor General
State of Arizona
2910 N 44th Street, Suite 410
Phoenix AZ 85018

RE: 2010 Special Audit of the Arizona Sports and Tourism Authority

Dear Auditor General Davenport:

On behalf of the Board of Directors and staff of the Arizona Sports and Tourism Authority we appreciate the opportunity to respond to the 2010 Special Audit of the Authority.

Since the Authority's inception in late 2000, this is the third audit of the Authority. The first audit occurred a little more than two years after our inception with the University of Phoenix Stadium under construction for less than 8 months. The second performance audit came at a time when the stadium had been open for operations for a little over two years, after we held hundreds of events which showcased the stadium, the Valley of the Sun and Arizona on a worldwide stage. This third audit comes just one year after the second performance audit and after a little more than 4 years of operations. In addition, this Special Audit comes at a time after the economy has seen its worst downturn in decades and the Authority has seen the financial impact of lower Tourism Taxes.

We are pleased with the basic conclusions of the Special Audit, specifically your finding that, with respect to major contracts entered into by the Authority, we have complied with our own procurement policies and have bid them in material compliance with best procurement practices. In addition, we appreciate your recommendations. The Authority has implemented already or will implement their related recommendations over the coming months. We believe that your findings will help all interested parties further understand the Authority's performance with respect to the diverse set of operations and objectives required of the Authority.

The Authority anticipates that under our current operations structure, we will be able to continue to provide the type of economic impact on Maricopa County as we have been able to provide for the past 10 years. As shown in the Special Audit, the Authority has used the nearly \$300 million in taxes received as the voters of Prop 302 intended, resulting in an economic impact to Maricopa County of almost \$4 billion, more than a 15 times multiplier on the investment of Prop 302 ¹.

Our economic challenge is the same as most local, county, state and national governments and public/private organizations are facing: the loss of significant revenue as a result of the economic crisis that has plagued our nation since late 2007. The majority of our revenue sources (approximately 90%), come from a variety of sales taxes, income taxes, hotel bed taxes and car rental surcharges. The

¹ Data was derived from an economic impact study "Prop 302 10 Year Retrospective" being released on December 22, 2010.



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Authority is feeling the impact of this economic downturn, which has been further aggravated by several legislative changes to our enabling legislation. The first legislative change was moving the funding for the Authority's operating budget in 2002 (including the stadium's operations) from the fourth to the final position in the flow of funds. The second legislative change that has negatively impacted the Authority's financial performance was the elimination of the statutory minimum from our NFL income tax revenue source in 2007.

The elimination of the NFL income tax statutory minimum was based upon a recommendation made by the Auditor General's office during the first performance audit of the Authority. In that report, the Auditor General noted on page 28 that removal of the statutory minimum "...could potentially affect TSA's ability to meet its funding obligations. This could include TSA's ability to establish and fund required reserves for operations and repairs, and other long-term costs associated with the multipurpose facility. Reduction in or elimination of the additional General Fund monies for TSA could also affect its ability to adequately fund current operations." Unfortunately, what the Auditor General forecasted in that first performance audit has become reality for the Authority. The impact of the elimination of the statutory minimum on the Authority's sources of revenues for fiscal years 2008 through 2011 is more than \$4.5 million.

While the operating deficits for the Authority are projected to be greater than \$4.5 million, we believe that our operational funding shortfalls would have been more than offset if the legislature had not made the two changes mentioned above. We believe that had the Authority not lost its original statutory minimum funding and had not experienced the estimated \$6.4 million impact from the change in priority of the Authority's operating budget in the 2002 legislative change, we would not have an operating deficit. The combined decline in Tourism Taxes from 2008 – 2010 of more than \$13 million only further exacerbate the financial obstacles that the Authority must overcome now and into the future.

We commend the professionalism, diligence and hard work of the staff of Auditor General we have worked with since last March. Thank you again for this opportunity to respond to this Special Audit report.

Sincerely,

Tom Sadler
President/CEO

cc: William Peltier, Chairman, Arizona Sports and Tourism Authority
Board of Directors, Arizona Sports and Tourism Authority

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Arizona Sports and Tourism Authority
Summary Response to Findings and Recommendations – 2010 Performance Audit

CHAPTER 1

Concession procurement largely adhered to best practices; additional policies and procedures to guide future procurement would be helpful.

Authority Response

The Authority is of the same opinion that our concessions procurement activity largely adhered to best practices, and appreciates the confirmation from the Auditor General. We would also state that our procedures followed all State Statutes which the Authority is bound to comply with and resulted in superior results to our initial concession contract.

Recommendation 1.1

The Authority should follow its policies and conduct a competitive procurement process for each contract with an expected value of \$25,000 or more or document the reasons for not conducting a competitive procurement process.

Authority Response

The finding of the Auditor General is not agreed to, but the audit recommendation will be implemented.

We disagree with any finding that we have not followed our policies regarding procurement. The Authority has always competitively bid its material contracts where competition has a positive impact, such as concessions and management services. However, our policies permit us to directly procure services where services are specialized or competition is not practicable.

The Authority's current policies and procedures led directly to the process we followed for the concession procurement.

The Authority will continue to follow our policy and more closely document the reasons and justifications for its decisions when not competitively bidding a contract due to specialization or impracticability.

Recommendation 1.2

The Authority should develop and implement additional policies and procedures that incorporate procurement best practices recommended by the national State Auditors Association to help guide its future procurement activities. These policies and procedures should require that:

- a. Requests for proposals (RFP) specify the business needs; scope of work desired ; and the proposal evaluation criteria and weighting factors;
- b. The award decision process ensures that proposals are received appropriately and evaluated objectively. It should also ensure that contracts are awarded fairly; and

- c. Contract provisions define the scope of work, contract terms, allowable renewals, and procedures for any changes; provide specific measurable deliverables and reporting requirements; and describe the methods of payment and payment schedules.

Authority Response

1.2 a. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority has shown that with the exception of "weighting factors", this recommendation was in place during the latest RPF for concessions.

1.2 b. The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

The Authority strongly protests this language as all of our contracts have been evaluated objectively and awarded fairly. We will of course continue to do this in every contract that we award.

1.2 c. The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

The Authority showed during this and past audits that all of our contracts have these provisions with the exception of the legal services for which we do not have specific measurables or a rate sheet included in the paperwork. We showed conclusively in the audit that all invoices clearly state the rate we are paying and are reviewed by the CFO and CEO for accuracy. The Auditor General, nor the agency's annual financial auditors, has not found any issue with our invoicing for legal services.

CHAPTER 2

Authority has taken steps to improve its financial situation, but still faces challenges.

Recommendation 2.1

To ensure compliance with statute, the Authority should properly apply the funding priorities required in 5-835 to the youth and amateur sports reserve and use this reserve to fund monthly revenue shortfalls in its youth and amateur sports program as required by A.R.S 5-835(B).

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented

Recommendation 2.2

The Authority and its Board of Directors should continue to take steps to address its financial shortfall by increasing revenues and/or decreasing expenses. In doing so, the Authority should

study various options available to increase facility revenues and decrease facility expenses to address its projected deficits and fund its required reserve accounts. For example, it could review its legal services and related expenses to determine if opportunities exist to reduce these expenses.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority, as stated in our detailed response to the 2009 audit, began taking steps to address the financial condition as soon as the economy started turning down in 2008. The Authority actively continues to address our financial condition on a regular basis, as stated by the Auditor General in this report.

The Authority will review its legal services and related expenses, as well as all of our expenses, as shown in our annual budget to determine if opportunities exist. The Authority will not implement changes for the sake of change, or for purely low cost bid, which could endanger our ability to produce quality results for our constituents, the voters of Maricopa County.

Recommendation 2.3

To enhance its long-term revenue projections, the Authority should continue to work with the Office of Tourism and other tourism industry representatives to forecast tourism revenues and create different ranges of growth such as a conservative, moderate, and aggressive scenario for its tax revenues and document its methodology.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority has already implemented this process.

CHAPTER 3

Authority meeting its bond obligations but has reached debt capacity.

No recommendations

Authority Response

The Authority appreciates the diligent review of our bonding activity by the Auditor General and appreciates the recognition that the Authority has followed the guidelines in the best interest of Maricopa County voters.

CHAPTER 4

Authority has improved oversight of facility manager, but minor additional steps needed.

Authority Response

The Authority believes that we could not have more oversight of the facility manager if they were employees of the Authority. The daily interaction between the Authority and the Facility Manager is extensive and adequate. There were no findings by the Auditor General that any of the specific recommendations shown below would have changed any results the Authority has attained through its current oversight.

Recommendation 4.1

The Authority should take steps to ensure that the facility manager performs preventative maintenance according to its preventative maintenance schedule by:

- a. Requiring the facility manager to include maintenance completion dates on the monthly and quarterly reports; and
- b. Selecting a small sample of planned preventative maintenance schedule to verify that preventative maintenance is performed in a timely manner. Authority staff should also determine based on resources available, how frequently these samples should be reviewed.

Authority Response

The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

The Authority currently reviews the preventative maintenance budget in our annual budgeting cycle and then monitors that budget on a monthly basis in our meetings with the Facility Manager, as well as completing unscheduled inspections of the work. We will add to this process by implementing the additional steps outlined by the Auditor General.

Recommendation 4.2

The Authority should expand its review of facility manager expenses, including implementing a process for reviewing monthly check registers and bank reconciliations and, based on resources available, determine a frequency for selecting a sample of both direct and indirect expenses for an in-depth review.

Authority Response

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

The Authority will review check registers of the facility manager, which has already been implemented. The Authority will not engage in the review of University of Phoenix Stadium

Bank reconciliations given that the auditors of both the Authority and the University of Phoenix Stadium already engage in this activity.

CHAPTER 5

Authority complying with Cactus League statutory requirements, but revenue shortfall will affect ability to meet planned commitments.

No recommendations

Authority Response

The Authority appreciates the diligent review of our Cactus League activity by the Auditor General and appreciates the recognition that the Authority has followed the guidelines in the best interest of Maricopa County voters.

CHAPTER 6

Authority funding has helped youth and amateur sports, but future funding is potentially limited.

Recommendation 6.1

The Authority should improve its biennial grant application funding process by:

- a. Establishing additional guidelines for staff regarding secured funding, such as the evidence or documentation staff should review and retain in the grant file in order to determine that the applicant has secured 100 percent of its project funding contributions.
- b. Requiring authority staff to reconcile funding reimbursement requests to submitted invoices and to review invoices to ensure that work completed is consistent with the project scope as approved by the Authority.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 6.2

The Authority should improve its quick grant process by developing a method of documentation that clearly shows that the Authority issued each check on a reimbursement basis as required by quick grant requirements.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 6.3

As time and resources permit, the Authority should:

- a. Review quick grants issued prior to May 2008 where it either lacks documentation supporting project completion and the appropriate expenditure of authority monies or the documentation indicates that the scope of the project and/or project costs changed; and

- b. Identify opportunities to recover monies and then work with its attorneys to take steps to recover these monies if it determines it has the ability and it is cost-effective to do so.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
